LAWYERS

Davis Wright Tremaine LLP

ANCHORAGE BELLEVUE LOS ANGELES NEW YORK PORTLAND SAN FRANCISCO SEATTLE SHANGHAI WASHINGTON, D.C.

RICHARD WYDE
DIRECT (206) 628-7796
richwyde@dwt.com

2600 CENTURY SQUARE
1501 FOURTH AVENUE
SEATTLE, WA 98101-1688

TEL (206) 622-3150
FAX (206) 628-7699
www.dwt.com

ENTERPRISE RESOURCE PLANNING AGREEMENTS

CALIFORNIA COUNTIES INFORMATION SERVICES DIRECTORS ASSOCIATION 2003 SPRING CONFERENCE APRIL 8, 2003

I. Introduction.

In Enterprise Resource Planning (ERP) Agreements: (1) a licensor sells (a) licenses to software that manages certain parts of an organization's resources and operations such as human resources, payroll, inventory, manufacturing, and physical property management, and (b) associated installation and support services under one agreement; and (2) a separate entity sells services to configure, parameterize, customize and implement the software under another agreement.

II. Software Licensor Agreements.

A. License Terms.

1. Typical license terms: perpetual, nonexclusive, nontransferable rights to use the software.

2. Sometimes licenses to the source code, including rights to modify and prepare derivative works.

3. Use of software to process data for affiliates and certain other parties.

4. Implementer has similar rights as the licensee.

SEA 1338376v1 28905-28
03/24/03

B. **Limitations on License.**

1. Typical limitations on copying, only as permitted in the license, accessing other software on the master CD.

2. No reverse engineering, transferability to other parties, other platforms or other databases.

3. Loss of warranties from modifications by the licensee or its implementer.

4. Limits on use of third party software licensed with the licensor's software.

5. No use for a service bureau or third parties other than as permitted.

C. **Fees and Payment Terms.**

1. All on execution.

2. Some percentage on execution and other percentages later.

3. Noncancelable, noncontingent, and nonrefundable due to revenue recognition requirements.

4. Sales and use tax.

5. Interest.

6. Withholding of performance by licensor if payments not made.

D. **Title and Protection.**

1. Licensors own their software.

2. Licensors also often want to own modifications to the software, even if made by the licensee.

3. Licensees may be held to higher standards for protecting the source code from disclosure.

E. **Indemnities.**

1. Intellectual property indemnity from licensor.

   a. Limited scope to U.S. patents and copyrights.

b. Maybe broader, e.g., Berne Co. Invention.

c. No indemnity if caused by third party or a modification or if not using newest release of software.

2. General indemnities by both parties.

a. Injury.

b. Death.

c. Damage to real and personal property.

1) Tangible property damage.

2) Maybe not intangible property.

F. Term and Termination.

1. Perpetual license.

2. Thirty days to cure material breaches before termination of license.

G. Limited Warranty.

1. Typical limited warranty that the unconfigured, unmodified software will perform substantially or materially in accordance with documentation.

2. Time period for warranty may vary, e.g., 12-15 months from contract effective date.

3. Reluctance or refusal to warrant performance in accordance with proposals.

4. Reluctance or refusal to warrant performance in accordance with service levels.

5. Requirement of compliance with contract terms, use of current version of software, no modifications, and full payments required before licensor will provide services.

6. Limited services warranty, e.g., to be performed in accordance with industry standards.

7. Limited date/time (Y2K) warranty.

8. Limited warranty about lack of viruses or bombs.

9. Refusal to warrant that the software complies with laws and regulations.

10. Limited remedy to repair or replace unmodified software problems or refund if unable to repair or replace.

11. Bug fixes lack warranties.

H. Limitations on Liability.

1. Disclaimers of all consequential and nondirect damages.

2. Direct damages cap of amounts paid by licensee to licensor, instead of amounts to be paid.

3. Perhaps mutual disclaimers for licensee.

4. Carve outs from limitations for certain breaches.

    a. Confidentiality.

    b. Injuries or damage to property.

    c. Perhaps cap the carve outs at a multiplier of amounts paid.

I. Nondisclosure Obligations.

1. Typical scope of protection required for the other party's confidential information.

2. Perhaps higher standard (strict confidentiality) if source code provided.

3. Access to software limited to implementers and authorized contractors.

J. Assignment.

1. Prohibited except to permitted assignees.

2. Negotiable to assign without consent if sale of all or substantially all assets or stock or if merger.

K. Conflicts Between Documents; Order of Precedence.

1. Master terms.

2. Exhibits.

3. Schedules.

4. Addenda.

5. Maybe proposal parts.

L. Installation Services.

1. The licensor may provide installation services.

2. The licensee or implementer might provide these services.

3. They may have a limit on the number of hours for these services built into the price.

4. Installation may be required for multiple environments (test and production).

M. Acceptance Testing.

1. Reluctance by licensors to allow testing.

2. Limited testing may be permitted on the unmodified software.

3. Limited time period.

4. Remedy of repair, but no refund.

N. Training Services.

1. Limited to unconfigured software.

2. Additional costs.

O. Support Services.

1. Begin on contract execution, not end of warranty.

2. Coverage periods.

   a. Different coverage for different payments.

   b. Time zones can have an impact.

3. Loss of coverage events.

   a. Modification of software.

   b. Failure to pay.

c. Other breaches.

4. Fees.

a. Pay in advance annually.

b. Perhaps can cap annual increases at 5% per year.

5. Term.

a. One year or perhaps up to 15 months for first year payment.

b. Annual renewal terms.

c. Licensors may commit to provide support for each release for a number of years after it is issued to the general public, e.g., four years.

6. Termination.

a. Thirty days' cure period for material breaches before termination.

b. Pro rata refund if prepay and licensee terminates licensor due to licensor's material breach.

7. Scope of services.

a. Less than full commitment to fix errors (reasonable efforts or attempt to fix errors).

b. No warranties for software provided under support.

c. Escalation to higher levels to fix problems, e.g., from support desk to engineers.

8. Priority levels for software errors.

a. Nonoperational or catastrophic failure.

b. Failure that degrades performance.

c. There is an error but it is nonfunctional, e.g., just cosmetic.

9. Performance standards for responding to software errors.

a. Goals that are less than full commitments, e.g., attempt to respond to calls in four hours.

b. No credits or payments to licensee if licensor misses its goals or standards.

10. Different levels of services based on pricing.

a. Higher levels cost more.

b. Beware of pricing surprises, e.g., an additional one time lump sum payment plus higher annual fees for the highest level of support.

c. Longer support hours.

d. Faster escalation to engineers.

e. Dedicated customer representatives.

f. Maybe different terms from lower levels of services, e.g., different caps on increases.

11. Updates, enhancements, bug files, releases, versions, and new modules all should be defined to be clear on what software is provided as part of the support fees and what software will cost more.

P. Incremental License Fees for Newly Licensed Software During Support.

1. Increase in number of users.

2. Increase in budget size.

3. Other increases in measurements used as basis of fees.

Q. Electronic Delivery of Software.

1. Can avoid sales and use tax in some states.

R. Replacement of the Database Version for the Software.

1. Can cause additional licensee fees for licensor software.

2. Likely to result in additional license fees for third party software.

S. Option to Replace Operating System/Hardware Platform.

T. Option to Become a Source Code Escrow Beneficiary.

1. Source code may not be provided for all the software.

2. Costs may result from being added as beneficiary.

U. **Expiration of Offer.**

1. Licensors impose additional sales pressure by putting expiration dates on their offers.

2. These dates can be extended, usually up to the end of a fiscal period.

V. **Licensee Obligations.**

1. Contractual payment of all fees or pay for the time the license went off support, based on then current rates.

2. Compliance with all terms, although may be negotiable to material compliance with opportunity to cure breaches.

W. **Attachment of Proposal.**

1. All proposal.

2. Alternatively, limited parts, e.g., checklist of functionality.

X. **List the Software Modules and Prices.**

1. Licensor software.

2. Third party software.

3. Limitations on each type of software.

   a. Numbers of users.

   b. Must be used with this configuration.

III. **Implementation Agreements.**

A. **Definitions.**

B. **Term.**

C. **Financial Matters.**

1. Purchase Prices.

2. Charges.

3. Transportation and Insurance Charges.

I. Training and Implementation.

1. Training.
2. Implementation.
3. Post Implementation Support.

J. Warranties.

1. Deliverables.
2. Services.
3. Date/Time Compliance Warranty.
4. No Harmful Code.
5. Power and Authority.
6. Disclaimer of Warranty.

K. Warranty Services.

1. General Responsibilities.
2. Inquiry Assistance.
3. Additional Assistance.
4. Deficiency Incident Report.
5. Enhancements.
6. Performance Standard Measurement.
7. Modifications.
8. Bug Reports.
9. Exclusion.

L. Cutover and Additional Services.

1. Cutover.
2. Additional Services.

M. **Change Orders.**

1. Issuance of Change Orders.
2. Contractor Response.
3. Agreement.
4. Disagreement.
5. Termination.
6. Contractor Submission.

N. **Performance Bond.**

1. Value.
2. Payments.
3. Performance.
4. Review by Licensee.
5. I'd prefer a letter of credit.

O. **Additional Rights and Remedies.**

1. Liquidated Damages.
2. Withholding Payments.
3. Reductions in Payments Due.
4. Cover.
5. Performance Standards Credits.
6. Suspension for Convenience.
7. Service Response Time Credits.
8. Response Time Remedies.

P. **Insurance.**

1. Liability and Auto Insurance.
2. Worker's Compensation Coverage.

3. Subcontractors.

4. Premiums.

5. Cancellation.

6. Insurance Documents.

7. Increased Coverage.

Q. Confidential Information.

1. Access and Protection.

2. Contractor's Proprietary Information.

3. Security Requirements.

4. Return.

5. Injunctive Relief and Indemnity.

6. Nondisclosure of Other Licensee Information.

7. Exceptions.

8. Written Staff Contracts.

9. Subpoena.

10. Survival.

R. Ownership and Rights.

1. Licensee Ownership.

2. Contractor Ownership.

S. Indemnifications.

1. Intellectual Property.

2. General.

T. Damages Limitations.

1. Licensee.

2. Contractor.

17. Licensing Standards.

18. Lobbying Activities.

19. Modifications and Amendments.

20. Nonwaiver.

21. Notice of Delay.

22. Notices.

23. Publicity.

24. Remedies.

25. Severability.

26. Subcontractors.

27. Subpoena.

28. Survival.

29. UCC Applicability.

30. Waiver.

IV. Unique Aspects of ERP Agreements.

A. General.

1. Significant analysis and design work needed before configuration can begin.

2. These projects often fail due to the failure to adequately design the system to fit into the licensee's environment.

B. Payment and Pricing.

1. Licensors want to get paid as quickly as possible for their unchanged software and support services.

   a. either 100% on execution; or

   b. most on execution and some percentage within 30 days of installation.

2. Implementers may be willing to wait for payment based on acceptance of configured modules, other deliverables and the fully integrated system.

3. Implementation costs can be much higher than the licensee fees and support charges from the licensor, perhaps twice as high.

C. Testing.

1. Licensors don't want to allow testing of the software.

2. If a licensor permits acceptance testing, it would be only for the basic system.

3. Implementers may allow testing of the system with its configurations and customizations.

4. When problems arise, the parties have to sort out which one is responsible for causing and fixing the problems.

5. If the configured software fails its acceptance testing, the licensee should be able to terminate the implementation agreement and receive a refund of amounts paid for the implementation services, as well as attempt to receive a refund for the license fee for the basic system from the implementer.

D. Warranties.

1. The licensor only gives warranties related to the unconfigured software.

2. The implementer may only give warranties for the configurations and customizations it performs.

3. Neither party wants to give warranties about the performance of the software because neither is totally responsible for the actual product used by the licensee.

E. Ownership.

1. Licensors want to own all modifications made to their software.

2. Implementers want to own tools, designs, and other ancillary products that result from the work and that they can use for other clients.

3. Licensees should own deliverables from the implementers and at least receive an irrevocable license to any of these ancillary products that were produced at an implementer's standard rates.

F. Updates.

1. Typically updates, new features, new functions, and patches should not have an impact on the configured system.

2. However, the licensor only issues updates for the standard system, not the configured one.

3. Users have to pay more to implement updates in customized environments.

4. Updates have to be implemented or the licensee loses its warranties from the licensor.

G. Liability Limitations.

1. Licensors only want to accept risks of liability related to their unconfigured software and not for third party software licensed with their software nor for the configured system.

2. Implementers only want to accept risks of liability for their configuration and customization activities, but not the licensors' software.

H. Remedies for Software Problems.

1. Licensors will not allow licensees to exercise remedies based on the configured software.

2. Licensors only offer repair, replacement or refund remedies for unconfigured software.

3. Implementers only want to repair the configurations or customizations, creating uncertainty about how to determine which party caused the software not to work correctly.

4. However, real testing and usage of the software cannot occur until after it is configured.

5. As a result, it can be hard to obtain remedies from the licensors.

6. It is also hard to enforce performance standards and receive credits or other remedies because neither the licensor nor implementer

may be directly responsible for the problems causing the failure to meet the standards.

I. Relationship between Licensor and Implementer.

1. The implementer may have a contract directly with the licensor.

2. The implementer will have received training from the licensor, but the licensor wants no responsibility contractually for the acts or omissions of the implementer.

3. At the start of the project, the implementer owns the relationship with the licensor.

4. Over time, the licensee takes responsibility for that relationship.

5. During implementation and some warranty period, the implementer should serve as the primary interface and figure out where the problem arises and how to fix the problem.